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A Study on Indian Stock Market: An Over View

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ABSTRACT

Equity markets would be mainly driven by global trends and foreign fund trading activity in the holiday shortened week, analysis said. The Indian stock markets may remain volatile amid fear that the US FED will keep raising interest rates to control inflation. To main among the general public, the term volatility is simply synonymous with risk associating with any financial asset, have misconceptions about the ways or paths of pursuit to investing and especially in equity investing many carry their own biases and past experiences. One common association with equality is loss though many fail to distinguish the difference between risk and loss. Risk is simply a situation involving exposure to danger. Volatility plays a vital role in the secondary market which influences a lot on the investment decision. The main object of this study is to examine the volatility in the stock market. In this paper an attempt is made to know the volatility in markets with reference to BSE and NSE nifty.

KEY WORDS**: NSE, BSE, Indian Stock Markets, WIP and CPI.**

Introduction:

Indian Stock Markets is one of the oldest stock market in Asia. East India Company used to transact loan securities by the end of 18th century. In the 1830s, trading on corporate stocks and shares in bank and cotton presses took place in Bombay. The concept of stock markets came to India in 1875, when Bombay Stock Exchange (BSE) was established as 'the native share and stockbrokers association' a voluntary non-profit making association. Stock market is one of the most versatile sectors in the financial system and stock market plays an important role in economic development. Stock market is a hub where facilities are provided to the investors to purchase and sell their Shares, Bonds and Debenture etc. in other words stock market is a platform for trading various securities and derivatives without any barriers. The Securities and Exchange Board of India has deeply and comprehensively analyzed the volatility. The present study show that the volatility has not gone up much in the recent past as it has been perceived. Indian Stock Market provides a very high rate of return and comparatively moderate volatility.

Traditionally, consumer have been conditioned that all risk amounts to loss and so use these words interchangeably. Also alternatively, consumers think about or relate investment ot gains or possibility of gains. So, whenever there's mention of risk, it's understood as direct loss and not the possibility of a loss. In finance, risk refers to the degree of uncertainty and or potential financial loss inherent in an investment decision. Volatility may impair the smooth functioning of the financial system and adversely affect economic performance. This has an effect on consumer spending is related via wealth effect. Increased wealth enhances consumer spending. However, a fall in stock market will weaken consumer confidence and thus drive down investor spending. Stock market volatility can be interpreted as a rise in risk of equity investment the shift of funds less risk assets.

Investment risk could hence be defined as the probability or likelihood of occurrence of loses relative to the investment. In other words, it's the chance that an outcome or investments actual gains differ from an expected outcome or return. Risk includes the possibility of losing some or all of an original investment. Thus, risk should be looked at the deviation of an investments ideal outcome. When planning for an investment, we scout for the possible risks or events that could derail us making an exhaustive list of risks, there could be some event that could derail the final intended output. But, despite we making an exhaustive list of risks, there could be some event tht could disturb the applecart. Ellory Dimson profoundly puts, risk means more things can happen than will happen.

Review of Literature

As a part of the process of volatility for understanding easily can be study. The investor comprises of close to close volatility whereas the later comprises of open to close, high to low and open to open volatility. In India, equity market development received emphasis since the very first phase of liberalization in the early eighties. Additional emphasis followed after the liberalization process got depended and widened in 1991 as development of capital markets was made an integral part of the restructuring strategy. Today, Indian markets conform to international stands both in terms of structure and in terms of operating efficiency.

Dhirender Singh Bisht (2013) at SMC Global Securities Ltd, said: "from the derivatives front, Nifty's highest Call Open Interest concentration was seen at 18000 strikes, followed by 18200 strike. Whereas on put side, the hightest concentration in open interest held at 17800 strike". **"Madhusudan" (1998)** found that BSE sensitivity and national indices did not follow random walk by using correlation analysis on monthly stock returns data over the period January 1981 to December 1992. **Bhanu Pant and Dr. T.R. Bishnoy (2001)** analyzed the behavior of the daily and weekly returns of five Indian stock market indices for random walk during April 1996 to June 2001. **Nath and Verma (2003)** examine the interdependence of the three major stock markets in south asia stock market indices namely India (NSE-Nifty) Taiwan (Taiex) and Singapore (STI) by employing bi-variate and multivariate integration analysis to model the linkages among the stock markets, no co-integration was found for the entire period (daily data from January 1994 to November 2002). **Sur, D., & Bhunia, A. (2015)** examined the influence of selected macroeconomic variables in terms of international crude oil price, exchange rates, domestic gold price, real interest rates, and wholesale price index on stock market indices (Sensex and Nifty) of India. With the help of time series, monthly data was collected from Reserve Bank of India database; BSE and NSE database, investing.com and yahoo, finance database for the period July 1997 to July 2015 with the application of financial econometrics.

Objectives of the Study

The specific objectives of the present study are:

- To study the growth of the NSE and the BSF
- To study the Inflation of the stock market on the country
- To study position sizing plays key role in portfolio creation
- To give conclusion revival strategy of prompted some investors
- To suggest some measures to reduce risk in Investing

Methodology

The present study is purely based on Secondary Data. The data is collected from the official website of BSE. Further, economic magazines, books, Journals, daily news papers and websites, etc., are considered. The data collected for a period of 10 years (2010-11 to 2019-20).

The Growth of Stock Exchange

The concept of Stock Markets came to India in 1875, when Bombay Stock Exchange was organized under the name of "The Native Stock and Share Brokers Association" as voluntary and non-profit making association. It was recognized on a permanent basis in 1957. In its 135 years history, the Bombay Stock Exchange (BSE) has seen several changes. It has moved, in terms of geography, from a shaded nook under a banyan tree in what is now Horniman Circle, to its present home, the 28 stored P.Jeeyabhoy towers on dalala street. To day, a visitor to the 19000- square-foot trading ring in the rotunda, located in an annexed to the main building, is likely to find the place as quiet a library. It has been that since April 1995 when the BSE put an online trading system in place allowing brokers trade from their offices, located on the street, or elsewhere. Numbers pain a fairly decent picture of the changes the exchange has seen the number of companies listed in BSE has grown from 1992-93 min 2861 to 4930 by the end of April 2020 and the average daily volumes were Rs.15228 crore. The BSE benchmark climed 345/04 points or 0.58 per cent. Markets remained highly volatile last year, but managed to end higher amid a sharp rebound on 2020. The BSE Sensex rallied 1899.63 points or 11.53 per cent to end at 89808.97 on 2020-21.

Table: 1 Securities and Capital Issues in Stock Exchange by the end of the March-2020

Capital Issue	35.85%
Ratio of Trade Scrips/Listed Scrip	32.9%
Share of top 10 Scripts to total turnover	24.69%
Share of top e scrips to total turnover	15.89%
Settlement cycle	T+2
Number of listed companies	5930
Number of listed Scrips	7771
P/E Ration (Average)	21.56%
Dividend yield (Average)	4.59%

Source: Various editions of SEBI annual reports

Table 1 revels the BSE's BI and B2 scripts collectively account for 55 per cent of the average daily traded volume on the BSE. The ratio between of listed companies in BSE was 5930 and number of listed scrips was 7771. The ratio between trade scrips and listed scrips is 31 per cent during the period.

Inflation of the stock market

Indian Stock Markets may remain volatile amid fear that the US FED will keep raising interest rates to control Inflation. Raising bond yields and macroeconomic numbers will keep the market mood subdued in the near-team. Investments by FIIs, who are turning out to be small net buyers at the margin, and DIIs will be monitored.

Wholesale price-based inflation rate feel to a seven and a half-year of (-) 3.48 per cent in last year on easing prices of food, fuel and manufactured items, strengthening the case for continuing with the pause in rate hike in the coming months of the current fiscal. This second straight month when WPI has been in the negative zone mainly on account of a higher base and falling prices of fuel and manufactured goods, food prices also eased during 2020-21. In 2021-22 WPI Inflation was at 16.63 per cent, it was (-) 0.92 per cent. Although the RBI tracks consumer price index (CPI), the decline in wholesale price index (WPI) based Inflation rate will be reflected in the retail Inflation with a time lag. The deceleration in WPI comes in line with the easing of 2021-22 retail inflation, which came in at 25 month low of 4.25 per cent. Declaim in the rate of inflation in 2022-23 is primarily contributed by fall in prices of mineral oils, basic materials, food products, textiles, nonfood articles, crude petroleum and natural gas and chemical and chemical product and investors.

Table: 2 Indicating range bound F&O Trading

Product	**Contracts**	**Value (RS in Lakh)**	**OI**	**PCR**
Stock futures	757418	4919614.98	2992602	---
Index options	82221180	3007925.87	8000939	0.91
Stock options	3763831	412383.30	2697888	0.55
Index futures	244635	2332436.60	341344	-

Source: NSE's

Table 2 revels that the high premium in Nifty cooled down significantly over the last week as it's hovering near 20 to 25 points. Nifty future OI fell continuously and it was less that 10 million shares. Barring FIIs, remaining market players seem to be on the long side. The market already witnessed bouts of short covering from FIIs in the last few sessions. The net shorts, which were in excess of 1.1 lakh contracts have declined gradually to near 95000 contracts during the year.

Position sizing plays key role in portfolio creation

The success of our investment and the wealth created through an investment is determined by the extent of exposure. In investing parlance, this is defined a position sizing which depicts the size of the investment or trade. In general, we tend to look at the return i.e., the percentage it generates. Even if one were to end up with a great return over an investment but the quantum of that investment is low then it wouldn't substantially add to the portfolio. The volatility is high in a concentrated portfolio and the prospects of outperformance rests solely on the limited possibilities. Tales of big investors are littered with such huge bets on limited number of stocks striking gold for them. The option of exploring either is dependent on the investors personality, risk capacity and risk tolerance.

Reduce risk in Investing

Traditionally, consumer have been conditioned that all risk amounts to loss and so use these words interchangeably. Also alternatively, consumers think about or relate investment ot gains or possibility of gains. So, whenever there's mention of risk, it's understood as direct loss and not the possibility of a loss. In finance, risk refers to the degree of uncertainty and or potential financial loss inherent in an investment decision. Volatility may impair the smooth functioning of the financial system and adversely affect economic performance. This has an effect on consumer spending is related via wealth effect. Increased wealth enhances consumer spending. However, a fall in stock market will weaken consumer confidence and thus drive down investor spending. Stock market volatility can be interpreted as a rise in risk of equity investment the shift of funds less risk assets.

Every outcome is a measure of probability. There's chance that one make a good decision and still end up with a bad outcome. The former is called risk and the latter luck. They could be the sides of a same coin but we treat them differently. Risk is seen as something that happens to us while luck is treated as something we do to ourselves. This fallacy is best seen in the self-attribution bias. Conversely, we choose to attribute the causes of an outcome based on what makes us look best. This is why we own up to our sill when things move as per our plan and when they deviate from the plan, we call it bad luck.

One should comprehend the fact that risk is always inherent and present, at all the times. We can't avoid it but we could certainly manage or mitigate it to our benefit. This is where one should be aware of their individual risk tolerance and not overstep it. This is what derives the risk to reward paybacks in an investment.

Conclusion

Indian markets witnessed a sharp selloff in the year gone by, as boarder indices closed in the red zone, with a cut of more than two per cent on year basis. As per the data from ICI-Cldirect.com, in the options space, aggressive writing is visible at ATM Call strikes once again and 17600 calls holds more than 1.2 crore shares which is significantly higher than usual. A closure among call strikes is crucial for market recovery. Moreover, put OI-base is highest at deep OTM 17000 strike followed by 17600 strike. Investors are advised to avoid buy on decline as long as Nifty is trading below 17500 levels. The volatility is high in a concentrated portfolio and the prospects of outperformance rests solely on the limited possibilities. Tales of big investors are littered with such huge bets on limited number of stocks striking gold for them. I say, "Your position size more a function of not how much you can make, but how much you can lose. Manage your position based on your downward loss perspective, not your upward potential'. Also, position sizing helps in making investment judgment more rational. It culls the emotion out of the equation and brings stability to the decision making. We tend to get overboard and so sidestep risk tolerance as conviction increases. So, position sizing helps one to add a good risk management tool to the investment philosophy.

Suggestions

Government should take appropriate steps to curb excess volatility in stock market. There should be tight vigilance on the corporate bodies who are acting as intermediaries in the market. The corporate entities should feel accountability and responsibility in concern to public money. The strongly regulatory authority should be development to eliminate the irregularities in the stock market so as to enhance the confidence of small and medium investors. The investor education and awareness programmes should be conducted on the regular basis. Investors should be encouraged to participate in equity markets thorough Mutual fund companies so that they can utilize the expertise of fund managers. Derivative markets should be developed and encouraged so that the risk can be hedged effectively.

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